

## Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

### I.T (999 HK)

#### Strong Mainland China and Japan but HK still a drag

■ 1H16 recurring earnings: HK\$36mn (+4% YoY), driven by EBIT growth of 161% YoY in Mainland China (MC) and 55% YoY in Japan

■ HK worsened with -0.9% SSSG and a HK\$91mn loss in EBIT

■ Maintain NEUTRAL as HK outlook remains highly uncertain

#### 1H16 (Mar to Aug) results review

I.T's reported a 1H16 HK\$31mn loss in earnings (1H15: HK\$49mn profit). Excluding non-recurring items (HK\$15mn gain in senior note repurchases in 1H15 and a HK\$67mn forex loss in 1H16 from conversion of the group's RMB fixed deposits to HK\$), recurring earnings grew 5% YoY to HK\$36mn. Revenue also grew 5% YoY, driven by 17% YoY growth in MC and 8% YoY growth in Japan/Macau/overseas, offsetting HK's revenue decline of 4.4% YoY which was mainly due to decline in Chinese visitors. HK/MC SSSG were -0.9%/+5.9% while the group's GPM fell 2.2ppt YoY to 59.7% as GPM from both HK and MC slid due to increased retail discounts. Due to rising rental costs and decline in revenue, HK reported an operating loss of HK\$91mn which dragged down the group's EBIT by 6% YoY to HK\$111mn.

#### Valuation attractive but HK outlook caps upside for now

Although we expect strong performance of MC and Japan to continue, the outlook for HK market (47% of group revenue) remains highly uncertain and we expect this factor to continue to limit the upside potential in share price despite its current undemanding valuation. Going forward, the group will continue its focus on expansion in MC as operating leverage and SSSG continues to drive earnings. As 1H16 results were generally in line with our full-year expectations we marginally lowered our FY16E/17E recurring earnings by 3%/1%, mainly on higher effective tax rates. Our FY16E-18E EPS is +2%/+7%/+7% vs consensus.

#### Waiting for signs of improvement in HK market

Despite I.T's 20% discount to current peer average of 10x forward P/E, we remain cautious and maintain our NEUTRAL rating on I.T given the risk of further deterioration in retail conditions in HK and the current low investor risk appetite amid weak market sentiment. New TP is set at HK\$2.19 (from HK\$2.31) as we rolled over our TP to FY17E from FY16E and lowered our target P/E from 11x (forward mean P/E) to 7x (1SD below forward mean P/E) on high earnings uncertainty.

#### Financials

HK\$ mn	Feb-2014	Feb-2015	Feb-2016E	Feb-2017E	Feb-2018E
Revenue	6,747	7,181	7,587	8,024	8,850
Growth (%)	3.1	6.4	5.7	5.8	10.3
Recurring NP	280	300	309	376	515
Growth (%)	-27.1	7.2	3.1	21.6	37.1
Recurring EPS (HK\$)	0.23	0.24	0.25	0.31	0.42
DPS (HK\$)	0.10	0.12	0.09	0.14	0.19
Recurring P/E (x)	8.8	8.2	8.0	6.5	4.8
P/B (x)	1.0	1.0	0.9	0.8	0.7
ROAE (%)	10.5	11.1	8.2	11.5	14.0

Sources: Company data, CMS (HK) estimates

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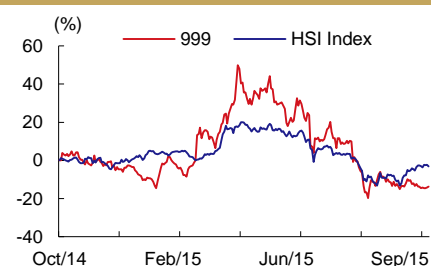
#### WHAT'S NEW

TP/estimate downgraded

### NEUTRAL

Previous	NEUTRAL
Price	HK\$2.01
12-month Target Price (Potential upside)	HK\$2.19 (+9%)
Previous	HK\$2.31

#### Price Performance



Source: Bigdata

%	1m	6m	12m
999 HK	(1.5)	(38.5)	(21.2)
HSI	8.4	(19.3)	(2.4)

#### Textile & Garment

Hang Seng Index	22957
HSCEI	10558

#### Key Data

52-week range (HK\$)	1.85-3.6
Market cap (HK\$ mn)	2453
Avg. daily volume (mn)	0.67
BVPS (HK\$)	2.05

#### Shareholding Structure

Sham brothers	60.66%
Yeung Chun Kam	5.61%
Jiang Jinzhi	5.04%
The Capital Group Companies, Inc.	5.02%
No. of shares outstanding (mn)	1221
Free float	36.01%

#### Related Research

1. I.T (999 HK) - Staying cautious as HK retail outlook remains cloudy, maintain "NEUTRAL" September 11, 2015
2. I.T (999 HK) - Taking a cautious stance given HK outlook uncertainty, downgrade "NEUTRAL" May 27, 2015
3. I.T (999 HK) - Oversold despite near term headwinds, maintain "BUY" January 30, 2015

### Balance sheet and cashflow analysis

I.T's balance sheet remains healthy with 1H16 net cash position of HK\$408mn vs 1H15's HK\$327mn. In terms of working capital, inventory level also saw improvement with 1H16 inventory days declining to 168 days vs 1H15's 177 days. However, the group did note that cash inflow from operating activities for 1H16 weakened to HK\$71mn from 1H15's HK\$179mn.

Figure 1: Changes in major P&L estimates

FY-end Feb (HK\$ mn)	Old Estimates			New Estimates			Difference
	FY16E	FY16E	FY16E	FY17E	FY17E	FY17E	
Turnover	7,487	7,587	1.3%	8,115	8,024	-1.1%	
Gross profit	4,672	4,568	-2.2%	5,121	4,862	-5.0%	
Gross margin	62.4%	60.2%	-2.2ppt	63.1%	60.6%	-2.5ppt	
Operating profit	462	480	4.0%	546	558	2.3%	
Operating margin	6.2%	6.3%	+0.2ppt	6.7%	7.0%	+0.2ppt	
Recurring net profit	317	309	-2.6%	378	376	-0.6%	
Recurring net margin	4.2%	4.1%	-0.2ppt	4.7%	4.7%	0.0ppt	

Source: Company, CMS (HK)

Figure 2: I.T's quarterly operating data (FY-end Feb)

Same-store sales growth	1Q14	1H14	3Q14	9M14	FY14	1Q15	1H15	3Q15	9M15	FY15	1Q16	1H16	FY16E
HK	-10.3%	-9.5%	-3.4%	-7.4%	-4.0%	2.2%	3.5%	-4.5%	0.8%	0.7%	-0.5%	-0.9%	0.0%
Mainland China	-5.6%	-1.9%	-6.0%	-3.5%	0.0%	4.5%	4.3%	-0.2%	2.7%	4.5%	3.5%	5.9%	6.0%
Japan	-6.1%	N.A.	18.6%	1.7%	N.A.	20.2%	N.A.	13.5%	13.1%	N.A.	23.2%	N.A.	16.0%
Gross margins	1Q14	1H14	3Q14	9M14	FY14	1Q15	1H15	3Q15	9M15	FY15	1Q16	1H16	FY16E
HK	61.5%	59.1%	61.6%	60.0%	59.3%	61.4%	60.6%	62.2%	61.1%	60.7%	59.1%	56.9%	57.0%
Mainland China	56.5%	55.8%	58.5%	56.8%	57.3%	60.1%	60.4%	65.2%	62.1%	61.0%	62.7%	59.0%	60.0%
Japan	71.9%	N.A.	71.0%	70.5%	N.A.	68.1%	67.7%	80.1%	76.0%	N.A.	68.8%	70.5%	N.A.
<b>Overall</b>	<b>60.8%</b>	<b>59.2%</b>	<b>61.6%</b>	<b>60.1%</b>	<b>59.9%</b>	<b>62.4%</b>	<b>61.9%</b>	<b>65.0%</b>	<b>63.0%</b>	<b>62.2%</b>	<b>62.5%</b>	<b>59.7%</b>	<b>60.2%</b>

Source: Company, CMS (HK)

Figure 3: 1H16 results summary

FY-end Feb (HK\$ mn)	Actual		Comments
	1H15	1H16	
<b>Total revenue</b>	<b>3,228</b>	<b>3,392</b>	Mainly driven by Mainland China revenue growth
YoY change	9.8%	5.1%	
<b>-Hong Kong</b>	<b>1,656</b>	<b>1,586</b>	SSSG:-0.9% (1H15:3.5%) from weak Chinese visitor arrivals and consumer sentiment
YoY change	3.9%	-4.2%	
<b>-Mainland China</b>	<b>1,220</b>	<b>1,426</b>	Growth driven by SSSG of 5.9% (1H15:4.3%) and increase in sales area
YoY change	19.7%	16.9%	
<b>-Japan</b>	<b>219</b>	<b>238</b>	
YoY change	7.5%	8.3%	27.5% YoY growth in terms of base currency (Yen)
<b>-Macau and others</b>	<b>132</b>	<b>143</b>	Macau retail revenue increased 6.2% despite lower than expected tourist traffic
YoY change	8.0%	7.9%	
COGS	(1,229)	(1,366)	
<b>Gross Profit</b>	<b>1,998</b>	<b>2,026</b>	
YoY change	14.9%	1.4%	
Gross margin	61.9%	59.7%	GPM decline mainly due to increase in retail discounts in HK and Mainland China
SG&A expenses	(1,878)	(1,918)	
% of revenue	58.2%	56.5%	
Other income	(3)	3	
<b>EBIT</b>	<b>118</b>	<b>111</b>	
YoY change	94.5%	-5.7%	
EBIT margin	3.7%	3.3%	
Net finance Income	(15)	(9)	
Share profits from JV	(20)	(14)	Galleries Lafayette Beijing JV operating loss continues to narrow
Non-recurring gains	15	(67)	HKD67mn one-off forex loss from conversion of RMB fixed deposits to HKD
<b>Pre-tax profits</b>	<b>99</b>	<b>22</b>	
Tax	(49)	(53)	
Effective tax rate	49.9%	240.6%	
Minority interest	(0)	(0)	
<b>Reported net profit</b>	<b>49</b>	<b>(31)</b>	
<b>Recurring net profit</b>	<b>34</b>	<b>36</b>	
YoY change	21.1%	4.7%	
Recurring net margin	1.1%	1.0%	
<b>DPS (HK\$)</b>	<b>0.01</b>	<b>0.00</b>	
Payout ratio	24.9%	0.0%	

Source: Company, CMS (HK)

Figure 4: I.T.'s annual and semi-annual historical results and forecasts

FY-end Feb (HK\$ mn)	FY14	FY15	FY16E	FY17E	FY18E	1H15	2H15	1H16	2H16E
<b>Total revenue</b>	<b>6,747</b>	<b>7,181</b>	<b>7,587</b>	<b>8,024</b>	<b>8,850</b>	<b>3,228</b>	<b>3,953</b>	<b>3,392</b>	<b>4,195</b>
YoY change	3.1%	6.4%	5.7%	5.8%	10.3%	9.8%	3.8%	5.1%	6.1%
<b>-Hong Kong</b>	<b>3,625</b>	<b>3,630</b>	<b>3,543</b>	<b>3,402</b>	<b>3,436</b>	<b>1,656</b>	<b>1,974</b>	<b>1,586</b>	<b>1,957</b>
YoY change	-2.2%	0.1%	-2.4%	-4.0%	1.0%	3.9%	-2.8%	-4.2%	-0.8%
<b>-Mainland China</b>	<b>2,372</b>	<b>2,771</b>	<b>3,204</b>	<b>3,740</b>	<b>4,488</b>	<b>1,220</b>	<b>1,551</b>	<b>1,426</b>	<b>1,777</b>
YoY change	16.5%	16.8%	15.6%	16.7%	20.0%	19.7%	14.6%	16.9%	14.6%
<b>-Japan</b>	<b>445</b>	<b>460</b>	<b>498</b>	<b>523</b>	<b>549</b>	<b>219</b>	<b>240</b>	<b>238</b>	<b>260</b>
YoY change	-13.4%	3.3%	8.3%	5.0%	5.0%	7.5%	-0.3%	8.3%	8.2%
<b>-Macau and others</b>	<b>305</b>	<b>320</b>	<b>342</b>	<b>360</b>	<b>377</b>	<b>132</b>	<b>188</b>	<b>143</b>	<b>200</b>
YoY change	7.2%	4.9%	7.1%	5.0%	5.0%	8.0%	2.8%	7.9%	6.6%
COGS	(2,703)	(2,716)	(3,020)	(3,161)	(3,460)	(1,229)	(1,487)	(1,366)	(1,653)
<b>Gross Profit</b>	<b>4,044</b>	<b>4,464</b>	<b>4,568</b>	<b>4,862</b>	<b>5,390</b>	<b>1,998</b>	<b>2,466</b>	<b>2,026</b>	<b>2,542</b>
YoY change	5.1%	10.4%	2.3%	6.5%	10.8%	14.9%	7.0%	1.4%	3.1%
Gross margin	59.9%	62.2%	60.2%	60.6%	60.9%	61.9%	62.4%	59.7%	60.6%
SG&A expenses	(3,625)	(3,971)	(4,087)	(4,304)	(4,661)	(1,878)	(2,094)	(1,918)	(2,169)
% of turnover	53.7%	55.3%	53.9%	53.6%	52.7%	58.2%	53.0%	56.5%	51.7%
Other income	(1)	(15)	0	0	0	(3)	(12)	3	(3)
<b>EBIT</b>	<b>418</b>	<b>479</b>	<b>480</b>	<b>558</b>	<b>729</b>	<b>118</b>	<b>360</b>	<b>111</b>	<b>369</b>
YoY change	-12.2%	14.4%	0.4%	16.2%	30.6%	94.5%	0.8%	-5.7%	2.4%
EBIT margin	6.2%	6.7%	6.3%	7.0%	8.2%	3.7%	9.1%	3.3%	8.8%
Net finance income	(31)	(22)	(20)	(11)	(7)	(15)	(7)	(9)	(11)
Share profits from JV	(42)	(36)	(20)	(10)	(5)	(20)	(16)	(14)	(6)
Non-recurring gains	0	15	(67)	0	0	15	0	(67)	0
<b>Pre-tax profits</b>	<b>345</b>	<b>436</b>	<b>373</b>	<b>538</b>	<b>717</b>	<b>99</b>	<b>338</b>	<b>22</b>	<b>351</b>
Tax	(65)	(124)	(131)	(161)	(201)	(49)	(74)	(53)	(78)
Effective tax rate	18.9%	28.3%	35.0%	30.0%	28.0%	49.9%	22.0%	240.6%	22.1%
Minority interest	(0)	(0)	(0)	(1)	(1)	(0)	(0)	(0)	(0)
<b>Reported net profit</b>	<b>280</b>	<b>313</b>	<b>242</b>	<b>376</b>	<b>515</b>	<b>49</b>	<b>263</b>	<b>(31)</b>	<b>274</b>
<b>Recurring net profit</b>	<b>280</b>	<b>300</b>	<b>309</b>	<b>376</b>	<b>515</b>	<b>34</b>	<b>266</b>	<b>36</b>	<b>274</b>
YoY change	-27.1%	7.2%	3.1%	21.6%	37.1%	21.1%	5.7%	4.7%	2.9%
Recurring net margin	4.1%	4.2%	4.1%	4.7%	5.8%	1.1%	6.7%	1.0%	6.5%
<b>DPS (HK\$)</b>	<b>0.10</b>	<b>0.12</b>	<b>0.09</b>	<b>0.14</b>	<b>0.19</b>	<b>0.01</b>	<b>0.11</b>	<b>0.00</b>	<b>0.09</b>
YoY change	233.3%	20.0%	-25.6%	55.1%	37.1%	NA	10.0%	NA	-19.3%
Payout Ratio	43.9%	47.1%	45.0%	45.0%	45.0%	24.9%	51.3%	0.0%	39.9%

Source: Company, CMS (HK)

Figure 5: Key parameters for I.T's HK business

FY-end Feb	FY14	FY15	FY16E	FY17E	FY18E	1H16	2H16E
<b>Retail revenue (HK\$ mn)</b>	<b>3,625</b>	<b>3,630</b>	<b>3,543</b>	<b>3,402</b>	<b>3,436</b>	<b>1,586</b>	<b>1,957</b>
YoY change	-2.2%	0.1%	-2.4%	-4.0%	1.0%	-4.2%	-0.8%
SSSG	-4.0%	0.7%	0.0%	1.0%	3.0%	-0.9%	2.0%
Self-operated retail area (sqf)	626,258	631,292	606,040	606,040	606,040	604,417	606,040
YoY change	0.8%	0.8%	-4.0%	0.0%	0.0%	-2.1%	-4.0%
Sales / sqf (HK\$ '000)	5.82	5.79	5.67	5.61	5.67	2.62	3.05
YoY change	-7.2%	-0.7%	-2.0%	-1.0%	1.0%	-2.2%	-1.8%
<b>Hong Kong gross margin</b>	<b>59.3%</b>	<b>60.7%</b>	<b>57.0%</b>	<b>58.0%</b>	<b>59.0%</b>	<b>56.9%</b>	<b>57.1%</b>
<b>Hong Kong operating profit</b>	<b>210</b>	<b>142</b>	<b>-35</b>	<b>0</b>	<b>103</b>	<b>-91</b>	<b>56</b>
YoY change	-23.3%	-32.4%	-124.9%	NA	NA	NA	-59.7%
<b>Hong Kong operating Margin</b>	<b>5.8%</b>	<b>3.9%</b>	<b>-1.0%</b>	<b>0.0%</b>	<b>3.0%</b>	<b>-5.8%</b>	<b>2.9%</b>
% of total operating profit	50.3%	29.7%	-7.4%	0.0%	14.3%	-82.0%	15.3%

Source: Company, CMS (HK)

Note: \* all sales/sqf figures based on CMS (HK)

Figure 6: Key parameters for I.T's Mainland China business

FY-end Feb	FY14	FY15	FY16E	FY17E	FY18E	1H16	2H16E
<b>Total revenue (HK\$ mn)</b>	<b>2,372</b>	<b>2,771</b>	<b>3,204</b>	<b>3,740</b>	<b>4,488</b>	<b>1,426</b>	<b>1,777</b>
YoY change	16.5%	16.8%	15.6%	16.7%	20.0%	16.9%	14.6%
<b>Retail revenue (HK\$ mn)</b>	<b>2,169</b>	<b>2,563</b>	<b>3,006</b>	<b>3,546</b>	<b>4,289</b>	<b>1,336</b>	<b>1,670</b>
YoY change	16.3%	18.2%	17.3%	18.0%	20.9%	19.1%	15.9%
SSSG	0.0%	4.5%	6.0%	4.0%	4.0%	5.9%	6.0%
Self-operated retail area (sqf)	871,518	978,854	1,115,894	1,339,072	1,539,933	1,015,507	1,115,894
YoY change	23.7%	12.3%	14.0%	20.0%	15.0%	14.6%	14.0%
Sales / sqf (HK\$ '000)	2.90	2.85	2.97	3.03	3.09	1.32	1.65
YoY change	-1.9%	-1.8%	4.0%	2.0%	2.0%	3.9%	4.1%
<b>Wholesale Revenue (HK\$ mn)</b>	<b>203</b>	<b>208</b>	<b>197</b>	<b>194</b>	<b>199</b>	<b>90</b>	<b>108</b>
YoY change	18.3%	2.1%	-4.8%	-2.0%	3.0%	-7.6%	-2.5%
POS (franchise)	113	115	105	105	105	105	105
Additions (YoY)	-13	2	-10	0	0		
<b>Mainland China gross margin</b>	<b>57.3%</b>	<b>61.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>59.0%</b>	<b>60.8%</b>
<b>Mainland China operating profit</b>	<b>47</b>	<b>117</b>	<b>227</b>	<b>266</b>	<b>305</b>	<b>78</b>	<b>149</b>
YoY change	-49.0%	147.3%	95.1%	16.7%	14.9%	160.9%	72.3%
<b>Mainland China operating Margin</b>	<b>2.0%</b>	<b>4.2%</b>	<b>7.1%</b>	<b>7.1%</b>	<b>6.8%</b>	<b>5.5%</b>	<b>8.4%</b>
% of total operating profit	11.3%	24.4%	47.7%	47.0%	42.3%	70.2%	40.8%

Source: Company, CMS (HK)

Note: \* all sales/sqf figures based on CMS (HK)

Figure 7: Key parameters for I.T's Japan business

FY-end Feb	FY14	FY15	FY16E	FY17E	FY18E	1H16	2H16E
<b>Retail revenue (HK\$ mn)</b>	<b>445</b>	<b>460</b>	<b>498</b>	<b>523</b>	<b>549</b>	<b>238</b>	<b>260</b>
YoY change	-13.4%	3.3%	8.3%	5.0%	5.0%	8.3%	8.2%
POS (self-operated)	24	21	21	21	21	21	21
Additions (YoY)	1	(3)	0	0	0		
<b>Japan operating profit</b>	<b>100</b>	<b>146</b>	<b>199</b>	<b>209</b>	<b>220</b>	<b>95</b>	<b>104</b>
YoY change	83.7%	46.7%	36.3%	5.0%	5.0%	54.7%	23.1%
<b>Japan operating margin</b>	<b>22.4%</b>	<b>31.8%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>39.9%</b>	<b>40.1%</b>
% of total operating profit	23.8%	30.5%	41.8%	37.0%	30.4%	85.0%	28.6%

Source: Company, CMS (HK)

Note: \* all sales/sq figures based on CMS (HK)

Figure 8: Key parameters for I.T's Macau/other areas

FY-end Feb	FY14	FY15	FY16E	FY17E	FY18E	1H16	2H16E
<b>Revenue (HK\$ mn)</b>	<b>305</b>	<b>320</b>	<b>342</b>	<b>360</b>	<b>377</b>	<b>143</b>	<b>200</b>
YoY change	7.2%	4.9%	7.1%	5.0%	5.0%	7.9%	6.6%
POS (Self-operated and franchise)	67	48	44	44	44	44	44
Additions (YoY)	12	-19	-4	0	0		
<b>Operating profit</b>	<b>61</b>	<b>74</b>	<b>86</b>	<b>90</b>	<b>94</b>	<b>30</b>	<b>56</b>
YoY change	10.7%	20.5%	16.1%	5.0%	5.0%	26.1%	11.4%
<b>Operating margin</b>	<b>20.1%</b>	<b>23.1%</b>	<b>25.0%</b>	<b>25.0%</b>	<b>25.0%</b>	<b>21.0%</b>	<b>27.9%</b>
% of total operating profit	14.6%	15.4%	18.0%	15.9%	13.1%	26.8%	15.2%

Source: Company, CMS (HK)

Note: \* all sales/sq figures based on CMS (HK)

Figure 9: Five-year historical forward P/E band



Source: CMS (HK), Bloomberg

Figure 10: Valuation comparable – Hong Kong listed apparel retailers

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	FY-end	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS CAGR (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)
I.T Ltd	999 HK	2.01	317	0.1	Feb	8.2	8.0	6.5	3.3	21.9	20.0	0.4	6.0	4.4	1.0	0.9
HSI		22,957				9.8	11.5	10.8	(14.3)	6.7	0.4	26.88	3.7	3.4	1.2	1.2
HSCEI		10,558				7.5	7.8	7.4	(3.9)	5.3	3.7	2.12	3.8	3.8	1.0	1.0
CS300		3,525				14.4	13.4	12.0	7.4	11.2	10.5	1.3	1.9	2.0	2.0	1.9
<b>Adjusted sector avg*</b>						<b>14.4</b>	<b>10.5</b>	<b>10.4</b>	<b>(14.1)</b>	<b>10.4</b>	<b>10.0</b>	<b>1.0</b>	<b>6.5</b>	<b>6.8</b>	<b>1.4</b>	<b>1.5</b>
Bosideng Intl	3998 HK	0.74	765	0.8	Mar	36.1	N/A	N/A	N/A	N/A	N/A	N/A	3.0	N/A	0.7	N/A
Trinity Ltd	891 HK	1.12	252	1.2	Dec	23.3	1,120.0	13.5	(97.9)	8,200.0	40.8	0.6	6.0	5.1	0.6	0.6
Giordano Intl	709 HK	4.10	831	0.9	Dec	15.8	14.4	13.2	9.6	9.1	8.6	1.8	6.6	6.7	2.3	2.2
China Outfitters	1146 HK	0.68	302	0.0	Dec	9.4	N/A	N/A	N/A	N/A	N/A	N/A	5.4	N/A	1.2	N/A
China Lilang Ltd	1234 HK	6.51	1,015	0.9	Dec	11.6	10.0	9.0	15.8	10.7	11.8	1.0	6.0	7.0	2.3	2.2
Ygm Trading	375 HK	6.30	135	0.0	Mar	12.9	N/A	N/A	N/A	N/A	N/A	N/A	6.3	N/A	0.7	N/A
Evergreen Intern	238 HK	0.91	111	0.0	Dec	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.5	N/A
Cabbeen Fashion	2030 HK	5.18	475	0.9	Dec	12.8	N/A	N/A	N/A	N/A	N/A	N/A	3.8	N/A	3.7	N/A
Bossini Intl	592 HK	0.66	139	0.1	Jun	9.3	9.4	9.4	(1.1)	0.0	(0.4)	N/A	11.3	10.6	1.3	N/A
China Fordoo	2399 HK	3.23	200	0.9	Dec	4.1	N/A	N/A	N/A	N/A	N/A	N/A	11.1	N/A	1.0	N/A

Source: CMS (HK), Bloomberg

Figure 11: Valuation comparable – Hong Kong listed apparel retailers (continued)

Company	Rev Hist (US\$m)	NP Hist (US\$m)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Net gearing FY1 (%)	Unlev beta	Gross margin Hist (%)	Net margin Hist (%)	ROIC Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
I.T Ltd	927	39	2.4	2.4	0.0	0.0	0.6	62.2	4.2	8.4	11.1	8.2	1.5	(19.0)
HSI											12.5	10.6	8.4	(6.3)
HSCEI											13.9	13.1	11.0	(5.5)
CS300											14.1	13.9	8.7	(7.5)
<b>Adjusted sector avg*</b>			<b>6.8</b>	<b>8.5</b>	<b>0.6</b>	<b>2.0</b>	<b>0.6</b>	<b>55.6</b>	<b>9.5</b>	<b>9.5</b>	<b>13.0</b>	<b>12.4</b>	<b>5.8</b>	<b>(11.1)</b>
Bosideng Intl	990	21	8.1	N/A	0.0	N/A	1.14	45.6	2.1	1.6	1.8	N/A	8.8	(1.3)
Trinity Ltd	339	11	8.8	14.7	6.6	7.9	1.30	74.1	6.1	(0.7)	1.0	0.1	38.3	(6.7)
Giordano Intl	715	53	8.8	14.7	0.0	0.0	0.51	58.0	7.4	13.3	15.4	15.5	9.9	3.0
China Outfitters	172	32	5.8	N/A	0.0	N/A	0.08	70.0	18.6	8.8	11.3	N/A	7.9	(15.0)
China Lilang Ltd	383	87	7.4	6.3	0.0	0.0	0.73	42.6	22.8	16.1	22.0	22.3	(0.6)	(18.1)
Ygm Trading	142	10	11.4	N/A	0.0	N/A	0.04	62.5	7.4	2.6	5.5	N/A	(12.5)	(24.1)
Evergreen Intern	86	(5)	7.0	N/A	0.0	N/A	N/A	69.1	(6.2)	(2.8)	(6.9)	N/A	11.0	(3.2)
Cabbeen Fashion	173	37	8.9	N/A	0.0	N/A	0.53	42.1	21.4	22.8	37.3	N/A	(1.0)	(16.9)
Bossini Intl	326	15	3.6	4.2	0.0	N/A	0.24	50.1	4.6	12.6	14.4	13.6	4.8	(9.6)
China Fordoo	263	43	2.7	N/A	0.0	N/A	N/A	35.3	16.2	22.0	29.6	N/A	(4.2)	(11.5)

Source: CMS (HK), Bloomberg

\*\*"N/A" entries excl. from calculations of averages

Note: trinity (891 HK) omitted from sector averages

Based on October 28, 2015 closing prices

## Financial Summary

### Balance Sheet

HK\$ mn (FY end Feb)	2014	2015	2016E	2017E	2018E
<b>Current Assets</b>	<b>3,900</b>	<b>4,156</b>	<b>4,374</b>	<b>4,731</b>	<b>5,292</b>
Cash & equivalents	2,315	2,294	2,429	2,770	2,894
Trading investments	0	0	0	0	0
ST bank deposits	0	0	0	0	0
Trade receivables	181	244	223	245	272
Other receivables	251	286	288	308	340
Inventories	1,117	1,261	1,389	1,359	1,730
Other current assets	36	72	45	50	55
<b>Non-current assets</b>	<b>1,937</b>	<b>1,817</b>	<b>1,945</b>	<b>1,955</b>	<b>2,040</b>
Investment property	0	0	0	0	0
Property, Plant & Eqt.	913	836	951	1,000	1,031
Intangible assets	343	322	314	300	286
Other non-current assets	681	658	680	655	723
<b>Total assets</b>	<b>5,837</b>	<b>5,973</b>	<b>6,319</b>	<b>6,686</b>	<b>7,332</b>
<b>Current liabilities</b>	<b>1,485</b>	<b>1,495</b>	<b>1,567</b>	<b>1,604</b>	<b>1,738</b>
Bank loans	496	267	297	297	297
Trade payables	358	385	393	379	415
Prepaid Accounts	0	0	0	0	0
Other liquid liabilities	630	843	877	928	1,025
<b>Long term Liabilities</b>	<b>1,556</b>	<b>1,637</b>	<b>1,651</b>	<b>1,654</b>	<b>1,660</b>
Loans	1,495	1,469	1,469	1,469	1,469
Others	62	169	182	185	191
<b>Total Liabilities</b>	<b>3,041</b>	<b>3,133</b>	<b>3,218</b>	<b>3,258</b>	<b>3,398</b>
<b>Total equity</b>	<b>2,796</b>	<b>2,840</b>	<b>3,101</b>	<b>3,427</b>	<b>3,934</b>
Issued capital	123	123	122	122	122
Reserves	2,673	2,716	2,979	3,305	3,812
Minority interests	1	1	0	0	0
<b>Total equity and liabilities</b>	<b>5,837</b>	<b>5,973</b>	<b>6,319</b>	<b>6,686</b>	<b>7,332</b>

### Cashflow Statement

HK\$ mn (FY end Feb)	2014	2015	2016E	2017E	2018E
<b>Operating cashflow</b>	<b>705</b>	<b>598</b>	<b>539</b>	<b>732</b>	<b>572</b>
Pretax profit	345	436	373	538	717
Deprec & Amort.	286	308	267	308	324
Finance costs	75	85	87	87	87
Finance income	(44)	(64)	(67)	(77)	(80)
Working capital chg	102	(92)	(14)	8	(318)
Others	(59)	(76)	(108)	(132)	(157)
<b>CF from IA</b>	<b>(275)</b>	<b>(238)</b>	<b>(299)</b>	<b>(282)</b>	<b>(279)</b>
Capital expenditure	(320)	(306)	(366)	(359)	(359)
Other investments	45	68	67	77	80
<b>CF from FA</b>	<b>928</b>	<b>(357)</b>	<b>(105)</b>	<b>(109)</b>	<b>(169)</b>
Borrowings	964	-99	30	0	0
Dividends	(37)	(135)	(135)	(109)	(169)
Others	1	(123)	0	0	0
<b>Net cash flow</b>	<b>1,358</b>	<b>3</b>	<b>135</b>	<b>341</b>	<b>125</b>
Forex effect	(4)	(25)	0	0	0
<b>Ending cash</b>	<b>2,315</b>	<b>2,294</b>	<b>2,429</b>	<b>2,770</b>	<b>2,894</b>

### Profit & Loss Statement

HK\$ mn (FY end Feb)	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>6,747</b>	<b>7,181</b>	<b>7,587</b>	<b>8,024</b>	<b>8,850</b>
Cost of sales	(2,703)	(2,716)	(3,020)	(3,161)	(3,460)
<b>Gross profit</b>	<b>4,044</b>	<b>4,464</b>	<b>4,568</b>	<b>4,862</b>	<b>5,390</b>
SG&A exp	(3,625)	(3,971)	(4,087)	(4,304)	(4,661)
Op expenses	(1)	(15)	0	0	0
<b>Op Profit</b>	<b>418</b>	<b>479</b>	<b>480</b>	<b>558</b>	<b>729</b>
Net fin. Costs	(31)	(22)	(20)	(11)	(7)
Share of results of JV	(42)	(36)	(20)	(10)	(5)
Non-recurring income	0	15	-66.816	0	0
<b>PBT</b>	<b>345</b>	<b>436</b>	<b>373</b>	<b>538</b>	<b>717</b>
Taxes	(65)	(124)	(131)	(161)	(201)
<b>Profit after tax</b>	<b>280</b>	<b>313</b>	<b>243</b>	<b>376</b>	<b>516</b>
Minority interests	(0)	(0)	(0)	(1)	(1)
Reported NP	280	313	242	376	515
<b>Recurring NP</b>	<b>280</b>	<b>300</b>	<b>309</b>	<b>376</b>	<b>515</b>
<b>Recurring EPS (HK\$)</b>	<b>0.23</b>	<b>0.24</b>	<b>0.25</b>	<b>0.31</b>	<b>0.42</b>

### Financial Ratios

(FY end Feb)	2014	2015	2016E	2017E	2018E
<b>YoY growth rate</b>					
Revenue	3.1%	6.4%	5.7%	5.8%	10.3%
Op profit	-12.2%	14.4%	0.4%	16.2%	30.6%
Recurring NP	-27.1%	7.2%	3.1%	21.6%	37.1%
<b>Profitability</b>					
Gross margin	59.9%	62.2%	60.2%	60.6%	60.9%
Recurring NP margin	4.1%	4.2%	4.1%	4.7%	5.8%
ROAE	10.5%	11.1%	8.2%	11.5%	14.0%

### Liquidity

Debt to Asset	34.1%	29.1%	27.9%	26.4%	24.1%
Net Debt to Equity	N.Cash	N.Cash	N.Cash	N.Cash	N.Cash
Current ratio	2.6	2.8	2.8	2.9	3.0
Quick ratio	1.9	1.9	1.9	2.1	2.0

### Operating efficiency

Asset turnover	1.2	1.2	1.2	1.2	1.2
Inventory days	157	160	160	159	163
AR days	9	11	11	11	11
AP days	43	50	47	45	42

### Per share ratios (HK\$)

Recurring EPS	0.23	0.24	0.25	0.31	0.42
CFPS	0.57	0.49	0.44	0.60	0.47
BVPS	2.00	2.05	2.28	2.56	2.99
DPS	0.10	0.12	0.09	0.14	0.19

### Valuation ratios

Recurring P/E	8.8	8.2	8.0	6.5	4.8
P/B	1.0	1.0	0.9	0.8	0.7
EV/EBITDA	3.0	2.4	2.4	1.7	1.1

Sources: Company data, CMS (HK) estimates



## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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